

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
POWER COMPANY FOR THE SIX-MONTH)	2012-00504
BILLING PERIODS ENDING DECEMBER 31, 2011)	
AND JUNE 30, 2012)	

ORDER

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. After hearing, the Commission may, by temporary adjustment to the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs that are recoverable pursuant to KRS 278.183(1). The Commission has determined that it will be administratively efficient and reasonable to review the pending two six-month periods in the same case. Therefore, the Commission hereby initiates the six-month review of the surcharge as billed from July 1, 2011 to December 30, 2011 and January 1, 2012 to June 30, 2012.²

¹ Case No. 1996-00489, In the Matter of the Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products (Ky. PSC May 27, 1997).

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2011 through December 2011 are based on costs incurred from May 2011 through October 2011, and the amounts billed from January 2012 through June 2012 are based on costs incurred from November 2011 through April 2012.

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since over- or under-recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. The environmental surcharge, as billed during the period under review, provides recovery of the incremental costs associated with the original compliance plan, as well as the costs associated with the first, second, and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.
2. Kentucky Power shall appear at the Commission's offices on the date set forth in Appendix A to submit itself to examination on the application of its environmental surcharge as billed to consumers from July 1, 2011 through December 31, 2011, and

January 1, 2012 through June 30, 2012. There shall be no opening statements or summaries of testimony at the public hearing.

3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and seven copies.

5. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

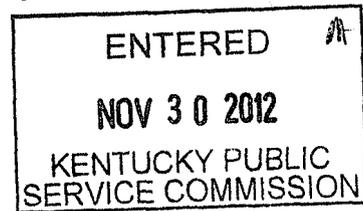
6. Within seven days of the Commission granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

7. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

8. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

9. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00504 DATED **NOV 30 2012**

- Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 12/28/12
- An informal conference is to begin at 1:30 p.m., Eastern Standard Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the discussion of issues..... 01/16/13
- All additional requests for information to Kentucky Power shall be filed no later than..... 02/07/13
- Kentucky Power shall file responses to additional requests for information no later than..... 02/21/13
- Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 03/07/13
- All requests for information to Intervenors shall be filed no later than 03/21/13
- Intervenors shall file responses to requests for information no later than..... 04/04/13
- Last day for Kentucky Power or Intervenors to request a hearing or submit this case for decision based on the record..... 04/15/13

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00504 DATED **NOV 30 2012**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing periods under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing periods in order to show the over- and under-recovery adjustments for the months included in the billing periods under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing periods under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. Provide the following information as of April 30, 2012. Provide the information in hard copy and in electronic format with the formulas intact and unprotected.

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. Determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

4. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly Environmental AEP Pool Capacity Costs from ES Form 3.14, Page 1 of 11, Column 5, Line 10. For the May 2011 through April 2012 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. For the May 2011 through April 2012 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO2 Emission Allowance Consumption. For the May 2011 through April 2012

expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

7. Reference ES Form 3.11 for the months in this review period

a. For each month in the two six-month review periods provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.

b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 7.a.

8. Provide the actual average residential customer's monthly usage. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's bill for the requested recovery period.

9. In Case No. 2011-00031,³ Kentucky Power proposed to recover costs incurred at several Ohio Power Company plants for polymer, lime hydrate and steam expense through the environmental surcharge. After further review, Kentucky Power withdrew its proposal. In case No. 2012-00273⁴ these same expenses continued to be recovered through the environmental surcharge mechanism for the last six months of the period covered in that review. For the periods under review in this case, it appears these same expenses were also included in Kentucky Power's monthly filings for the billing months of July 2011 through November 2011.

³ Case No. 2011-00031, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company For the Six-Month Billing Period Ending December 31, 2010 (Ky. PSC Apr. 16, 2012).

⁴ Case No. 2012-00273, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Two-Year Billing Period Ending June 30, 2011, filed July 23, 2012.

a. Confirm that Kentucky Power did continue to recover polymer, lime hydrate and steam expense for the billing months of July 2011 through November 2011.

b. For the periods in this review, provide an analysis, by month, of the dollar amount of any over-recovery of environmental costs due to including lime hydrate, polymer and steam expense in the monthly environmental surcharge filings.

10. In Case No. 2011-00031, Kentucky Power determined that it had not revised the capacity deficit amount and the company surplus weighting amounts each month on Form 3.14, which resulted in an over-recovery of the environmental surcharge. In Case No. 2012-00273, the same amounts were also not revised during the last six months of that two-year review. During the periods under review in this case, it appears that the capacity deficit amount and the company surplus weighting amounts shown on Form 3.14 were also not revised for the billing months of July 2011 through November 2011.

a. Confirm that Kentucky Power did not revise the capacity deficit amount and the company surplus weighting amounts for the billing months of July 2011 through November 2011.

b. For the periods in this review, provide an analysis, by month, of the effect on the environmental surcharge recovered if the capacity deficit amount and the company surplus weighting amounts are revised to the correct amounts.

11. In Case No. 2012-00273, Kentucky Power proposed a revision to its methodology for calculating the cash working capital allowance component of its rate base.

a. Does Kentucky Power propose to make the same revision for these two review periods?

b. For the periods in this review, provide an analysis, by month, of the effect on the environmental surcharge recovered if the cash working capital allowance calculation is revised as proposed.

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